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Gail L. Polivy
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August 16, 1996

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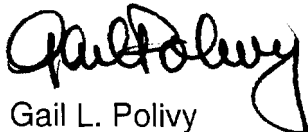
Wanda M. Harris
Competitive Pricing Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW
Room 518
Washington, DC 20554

Re: CC Docket No. 95-116
Telephone Number Portability

Dear Ms. Harris:

As required by the Notice of Proposed Rulemaking in the above-captioned proceeding, GTE is submitting a diskette of GTE's Comments and two hard copies of the Comments.

Sincerely,



Gail L. Polivy

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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AUG 16 1996

In the Matter of)	
)	CC Docket No. 95-116
Telephone Number Portability)	RM 8535

COMMENTS OF GTE

GTE Service Corporation, on behalf of its
affiliated domestic telephone operating and
wireless companies

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Before the
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In the Matter of)	
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Telephone Number Portability)	CC Docket No. 95-116 RM 8535

COMMENTS OF GTE

GTE Service Corporation ("GTE"), on behalf of its affiliated domestic telephone operating and wireless companies, respectfully submits its comments in response to the Further Notice of Proposed Rulemaking in the above-captioned proceeding.¹

I. INTRODUCTION AND SUMMARY

The Telecommunications Act of 1996 ("1996 Act") requires all local exchange carriers ("LECs"), both incumbents and new entrants, to offer number portability when "technically feasible" in accordance with requirements prescribed by the Commission.² On July 2, 1996 the Commission released a Report and Order ("R&O") and Further Notice of Proposed Rulemaking ("FNPRM") regarding telephone number portability. In the R&O, the Commission took several actions regarding number portability, including, but not limited to: (1) promulgating performance standards for long-term number portability; (2) establishing an implementation schedule; and (3) requiring interim

¹ First Report and Order and Further Notice of Proposed Rulemaking, FCC 96-286 (released July 2, 1996) ("FNPRM").

² § 251(b)(2).

number portability measures. In the FNPRM, the Commission sought comment on the methods of cost recovery for long-term number portability.

In these comments, GTE first urges the Commission to clarify that costs incurred to modify existing network functions, such as Operational Support Systems, that are affected by the introduction of number portability software are Category 2 costs. In addition, costs incurred for upgrades required solely to deploy number portability should also be recoverable as Category 2 costs. Should the Commission determine that such costs are not Category 2 costs, waivers should be granted on the grounds that number portability is not “technically feasible” under Section 251(b)(2) of the 1996 Act for carriers requiring such upgrades. Requiring carriers to incur costs solely to deploy number portability while not allowing them Category 2 cost recovery would result in an unconstitutional “taking” of their property.

GTE next explains that any cost recovery scheme that would require incumbent local exchange carriers (“ILECs”) such as GTE to recover their substantial number portability costs through increased rates for their services would ignore existing state regulatory constraints on increases in end user charges and be wholly unrealistic in light of the downward pressure on rates that competition inevitably will engender. An ILEC dependent on rate increases in a competitive environment very quickly will find itself at a significant competitive disadvantage. Accordingly, such a scheme would not result in ILECs bearing number portability costs on a “competitively neutral” basis.

For this reason, GTE proposes that the Commission adopt the principle that a “competitively neutral” cost recovery mechanism must allow all carriers to recover all of their costs directly related to number portability from a cost pool. The cost pool would

be funded from two sources. One source would be through a uniform, mandatory charge on all customers of local service (as “local service” is defined herein). Such a charge (1) must explicitly be identified as a separate line item charge for number portability on customer bills, (2) must be uniform across all local service customers and (3) must be mandatory. The other source of funds would be through a per-call charge collected by interexchange carriers (“IXCs”) from customers of interexchange toll service. IXCs would be free to recover these charges from their customers as they deem appropriate.

Finally, GTE offers its proposal for the basic operation of a cost pooling arrangement. Under the arrangement, a neutral third party would administer the pool of funds generated from the two sources described above for distribution on a periodic basis. The salient features of this cost recovery mechanism are simplicity, equity and, most importantly, competitive neutrality.

II. GTE GENERALLY SUPPORTS THE COMMISSION'S SCHEME FOR CATEGORIZING IMPLEMENTATION COSTS, SUBJECT TO IMPORTANT CLARIFICATIONS

In the FNPRM, the Commission proposes to establish three cost categories associated with providing long-term number portability: (1) costs incurred by the industry as a whole (“Category 3”); (2) carrier-specific costs directly related to providing number portability (“Category 2”); and (3) carrier-specific costs not directly related to number portability (“Category 3”).³ The Commission has tentatively concluded that Category 3 costs are not recoverable under Section 251 of the 1996 Act and should be

³ FNPRM at ¶ 208.

borne by individual carriers as network upgrades.⁴ Such costs would include upgrades to SS7 capabilities or the addition of intelligent network or advanced intelligent network capabilities.⁵ The Commission reasons that such upgrades will benefit carriers by allowing them to provide expanded services unrelated to number portability -- services which the Commission believes carriers will need, in any event, in a competitive market.⁶

GTE generally agrees with the Commission's categorization of costs and shares the concern leading to its tentative conclusion that costs wholly unrelated to number portability should be included in Category 3.⁷ GTE believes, however, that a clarification of the costs included in Category 2, as discussed below, is needed.

a. It Should be Made Explicit that Costs Incurred to Modify Existing Network Functions Solely to Accommodate Number Portability Constitute Category 2 Costs.

The Commission points to "the costs to purchase the switch software implementing number portability" as an example of a Category 2 cost.⁸ Although GTE agrees that this is an apt example, the Commission should explicitly acknowledge that any cost incurred to modify an existing network function that would not have been

⁴ FNPRM at ¶¶ 209, 226.

⁵ FNPRM at ¶ 227.

⁶ Although, the Commission refers to the competitive advantages to be gained by "incumbent LECs" from such upgrades, it is clear that upgrades of this type would benefit any carrier competing in this industry. FNPRM at ¶ 227.

⁷ GTE does not believe that the Commission should attempt to establish a mechanism for the recovery of Category 3 costs. See FNPRM at ¶ 222.

incurred but for the need to implement number portability would be a cost “directly related to” number portability and, thus, recoverable as a Category 2 cost.

Most notable among existing network functions, and an area certain to be affected by the introduction of number portability software, are a LEC's Operational Support Systems (“OSS”). OSS includes many of the functions needed to accomplish such basic network functions as routing, rating, billing, and inter-carrier settlements. It is virtually certain that the software required for number portability will create significant OSS interoperability problems that will require further expenditures to resolve. Under a “but for” qualifying test, however, only those costs incurred to keep an OSS function operating as it did prior to the introduction of the number portability software would be included as Category 2 costs. Costs incurred for upgrades that are wholly unrelated to number portability (e.g., to enhance or expand existing services) would be included as Category 3 costs.

b. Costs Incurred for Upgrades to Implement Number Portability Should be Included as Type 2 Costs to the Extent a Carrier Can Demonstrate that the Upgrades Would Not Otherwise Have Occurred Within Five Years From the Date the Costs Must be Incurred.

GTE shares the Commission's concern that carriers not be permitted to “gold plate” their networks with SS7, AIN or similar upgrades and then seek recovery of all the associated costs in the name of number portability. On the other hand, however, many carriers may not have plans for such upgrades because, even with the new service offerings they may facilitate, the demand generated from their customer base

⁸ FNPRM at ¶ 208.

for the new services will not be sufficient to allow a recovery of their investment within a reasonable time. Moreover, if a carrier is not in an area experiencing significant competition, the benefit of such upgrades for competitive purposes is also absent. Thus, to the extent a carrier can demonstrate through a filing with the Commission that an SS7 or other upgrade was not part of its five-year planning horizon, the costs incurred for that upgrade should be included as Type 2 costs because the expenditure required would not result in any direct benefit to the carrier. As with the costs associated with modifications to existing network functions, such treatment is appropriate because such expenditures would not have been made but for the requirement to implement number portability.

Should the Commission determine, however, that such costs are not recoverable, then such carriers must be granted waivers on the grounds that number portability is not “technically feasible” for them under Section 251(b)(2) of the 1996 Act absent the upgrade in question. Waivers would be necessary to avoid the unconstitutional “taking” that would result if Category 2 cost recovery were not permitted for costs of modifications required solely to deploy number portability that have no other direct benefit to the carrier.⁹

⁹ Fifth Amendment of the United States Constitution prohibits the taking of private property for public use without just compensation. See, e.g., *Dolan v. City of Tigard*, 114 S.Ct. 2309 (1994).

III. THE COMMISSION SHOULD ESTABLISH CLEAR PRINCIPLES FOR CONSTRUCTING A COMPETITIVELY NEUTRAL COST RECOVERY MECHANISM

Section 251(e)(2) of the 1996 Act requires that the costs of number portability be borne by all telecommunications carriers on a “competitively neutral” basis. In the R&O, the Commission interprets the language “on a competitively neutral basis” to mean that the “cost of number portability borne by each carrier does not affect significantly any carrier’s ability to compete with other carriers for customers in the marketplace.”¹⁰ The Commission also sets forth two criteria with which any competitively neutral cost recovery mechanism should comply. Specifically, the agency tentatively concludes that a competitively neutral cost recovery mechanism: (1) should not give one service provider an appreciable, incremental cost advantage over another service provider, when competing for a specific subscriber; and (2) should not have a disparate effect on the ability of competing service providers to earn a nominal return on their investment.¹¹ GTE submits that these proposals do not go far enough to establish a framework for ensuring “competitive neutrality.” Competitive neutrality must extend down to a customer’s marginal decisionmaking point -- the point at which that customer decides whether to stay with a current service provider or initiate service with a new provider. To minimize any ambiguity, the Commission should clarify and expand this set of principles as discussed below.

¹⁰ R&O at ¶ 131.

¹¹ R&O at ¶¶ 131-135, FNPRM at ¶ 210.

a. Carriers Must Be Allowed to Recover All of Their Number Portability Implementation Costs Through a Pooling of End User Customer Charges.

To be competitively neutral, a cost recovery mechanism must assure that all carriers that incur costs to implement number portability will, in fact, recover all of their costs. Notwithstanding the fact that it is not presently possible to quantify accurately the total cost of number portability, it is beyond dispute that the undertaking will cost the industry several billion dollars, the large bulk of which will fall squarely on the shoulders of ILECs. As reflected in the attached Affidavit of Gregory L. Theus, GTE's best partial estimate of its costs to implement number portability for its wireline operations only through the year 2001 is approximately \$1.136 billion.¹² As noted by Mr. Theus, this estimate does not include all potential costs. (See Affidavit, ¶ 5.) Many costs are simply too uncertain at this time to reasonably quantify. When competition is added to the equation, the fundamental unfairness and competitive detriment in placing costs of this magnitude disproportionately on ILECs is inescapable.

To suggest that it may be sufficient to allow ILECs to recover their substantial costs through increases in their service rates would ignore existing state regulatory constraints on increasing end user charges. And even if such increases were readily available, such a suggestion also would ignore the dynamics of the very competition the Commission strives to foster which ultimately will force carriers to compete, to some extent, on the basis of price. As well-financed competitors enter the market with

¹² A detailed breakdown of this estimate appears in Table 1 attached to Mr. Theus' affidavit. Due to time constraints, a faxed copy of Mr. Theus' affidavit is attached. The original of this affidavit will be filed under separate cover.

aggressive pricing of their services, any competing ILEC dependent on rate increases very quickly will find itself at a significant competitive disadvantage.¹³ Consequently, the competitive neutrality required by the 1996 Act would be lost. And if ILECs cannot recover their number portability costs -- whether for regulatory or competitive reasons -- their shareholders will be forced to foot the bill, resulting in a patently unconstitutional "taking" under the Fifth Amendment of the United States Constitution.

The only "competitively neutral" way for ILECs, as well as all other carriers, to bear their number portability costs is to recover those costs in an explicit manner through charges assessed on all end user customers of both local services¹⁴ and interexchange toll services. As discussed more fully in Section IV, *infra*, these charges would be set at an amount designed to recover annual number portability costs incurred

¹³ The Supreme Court has made clear that the Constitution forbids limiting a publicly regulated utility to a charge for its property that is so "unjust" as to be confiscatory. *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989).

¹⁴ As used in these comments, the term "local services" is intended to include local exchange services as well as reasonably comparable services such as cellular and PCS services. These services are grouped in this manner solely for purposes of establishing the universe of customers who will be assessed the local service charge.

by all telecommunications carriers. All funds generated would be pooled for distribution by a third party administrator to carriers incurring number portability costs.¹⁵

Although the 1996 Act does not explicitly address this method of recovery, GTE posits that direct recovery from end user customers of all telecommunications providers is unavoidable. The reality is that the costs forced on carriers will either be passed onto end users or constitute a taking of property in the form of lower earnings from the shareholders of the company. The Commission should not assume that Congress intended to violate the Fifth Amendment by an unconstitutional taking. Thus, Congress must have assumed that carriers who bear the cost of establishing number portability would be able to recover that cost from customers. Furthermore, while Congress mandated number portability, it also intended telecommunications providers to offer advanced new services to the public. Injuring the earnings of carriers will effectively prevent the raising of capital necessary to introduce advanced new services. For this reason as well, carriers must have a mechanism for charging customers for number portability costs. Finally, it is ultimately customers, not incumbent carriers, who will benefit from the increased choice and competition that number portability is intended to

¹⁵ GTE's proposal is a significantly expanded version of a cost recovery mechanism described in the FNPRM (at ¶¶ 223 and 224). There the Commission raises the possibility of requiring carriers to recover their Category 2 costs "through a number portability charge assessed on their end user customers located in areas where number portability is available." In contrast, under GTE's proposal, costs would be recovered by all telecommunications providers, would include both Category 1 and Category 2 costs, and would not be limited only to customers in areas where number portability is available.

enable. As a matter of fairness, then, those customers should pay for the increased level of service.

b. The Charge for Customers of Local Services Must Be Explicit, Uniform and Mandatory.

In order to ensure that the end user customer charge on customers of local service is collected in a competitively neutral manner, the charge (1) must explicitly be identified as a separate line item charge for number portability on customer local service bills, (2) must be set at a uniform amount across all local service customers, and (3) its recovery must be mandatory.

Adhering to these three principles will prevent the charge from becoming a differentiating factor for customers in choosing among competing local service providers. All other things being equal, if a customer can avoid the charge (or pay a lesser charge) and get the same service by going to another carrier that is assessing no charge (or a reduced charge), that customer will do so and competitively neutral cost recovery will be lost. An explicitly described charge will establish in the minds of customers that the charge is common and unavoidable across all carriers. Uniformity in the amount of the charge will prevent any competitive distortion resulting from customers gravitating to carriers assessing lower charges. Finally, making the assessment mandatory will avoid promotional “waivers” of the charge by some carriers, thereby preventing it from being used to the competitive disadvantage of carriers that cannot afford a like “waiver.”

IV. THE COST RECOVERY POOL

The funds generated through the charges on local service and interexchange toll service customers would be forwarded to a cost recovery pool that would be administered by a neutral third party designated by either the Commission or the North American Numbering Council. The level of funding for the pool would be determined as follows:

- All qualified Category 1 and Category 2 costs would be pooled on a national level for all telecommunications carriers through direct submissions from carriers of their estimated costs for the year.
- Based upon the information supplied by the telecommunications carriers, the pool administrator would estimate total number portability costs for the coming year.

The pool would then be funded through charges from two sources: (1) through the mandatory, uniform charge on all customers of local service, and (2) through charges collected by interexchange carriers from customers of interexchange toll services. These two charges would be established and collected as follows:

- Through industry data, the pool administrator would estimate the total number of local service calls and the total number of interexchange toll calls from all providers offering interexchange service for the coming year.
- The estimated total annual cost of number portability (as described above) would be divided by the estimated total number of calls (for both local service

and interexchange toll service) to develop a per-call cost of number portability.¹⁶

- The estimated total annual cost of number portability would be divided between local service calls and interexchange toll service calls by multiplying the per-call cost times the total number of calls in each category.
- The portion of the estimated total annual cost of number portability associated with local service calls would be divided by the total estimated number of end user local service lines resulting in a uniform charge that would be collected from all end users on a monthly basis by their service providers.
- Interexchange carriers would collect an amount equal to the per-call cost times the number of calls from their customers and forward those funds to the pool. Interexchange carriers would have the discretion to recover this amount from their customers in any manner they deem appropriate.

Periodic distributions would be made by the pool administrator to all telecommunications carriers submitting cost reports. Each carrier would receive a pro-rata distribution based on its share of the total costs submitted for the year. Any excess

¹⁶ The underlying assumption here is that in a number portable environment, each local and interexchange call will likely require a database query. In practice, some calls may not require a query while others may require multiple queries. By assuming that each call requires a query and that the interexchange carrier or LEC (or CLEC, CMRS provider, etc.) originating the call will be required to do the query, there is a reasonable link between call volumes and cost causation. By using calls as a proxy for queries, the incentive for carriers to make uneconomic choices in network design that would attempt to game the cost recovery methods instead of using the most efficient method of call routing is removed.

amount would be carried over and taken into consideration in estimating the next year's funding requirement. Similarly, any costs that are not covered will be carried over and taken into consideration in calculating the next year's total costs.

The salient features of this cost recovery mechanism are simplicity, equity and, most importantly, competitive neutrality. Complex and costly recordkeeping systems are avoided, thereby keeping administration costs to a minimum. The process also will ensure that all telecommunications carriers recover their costs in a competitively neutral manner without entanglement in complex issues related to examinations of local rates, access charges or inter-carrier compensation arrangements.

V. CONCLUSION

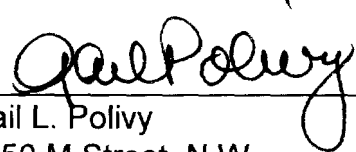
For all of the foregoing reasons, GTE urges the Commission to adopt the competitively neutral pooling mechanism for number portability cost recovery described above. In addition, the Commission should make explicit the cost recovery principles discussed above to ensure that all costs directly related to number portability are recovered.

Respectfully submitted,

GTE Service Corporation, on behalf of its
affiliated domestic telephone operating and
wireless companies

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By



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August 16, 1996

Their Attorneys

Affidavit of Gregory L. Theus

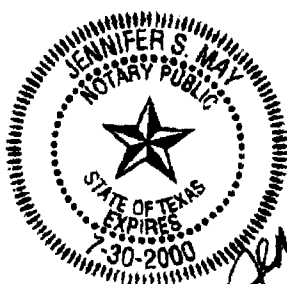
STATE OF TEXAS }
 }
COUNTY OF DALLAS } **KNOW ALL MEN BY THESE PRESENTS:**

BEFORE ME, the undersigned authority, on this day appeared Gregory L. Theus, who is personally known to me, and first being duly sworn according to law, upon his oath deposed and said:

- 1. My name is Gregory L. Theus. I am over 18 years old and have personal knowledge of the matters I have stated in this affidavit.**
- 2. I am employed at GTE Telephone Operations as Director - Network Planning. As Director - Network Planning, I am familiar with the costs expected to be incurred by GTE to implement local number portability (LNP) as mandated by the Commission's First Report and Order (R&O) in Docket 95-116.**
- 3. The following are GTE's best estimates of the costs of implementing number portability. These estimates were developed for use internally to identify the LNP budget overlays (unplanned additions) for the 1997-2001 planning horizon. It must be understood that these estimates DO NOT REPRESENT THE TOTAL ESTIMATED COST OF LNP DEPLOYMENT FOR GTE.**
- 4. The estimates INCLUDE:**
 - a. All costs associated with a third party, LNP Administrator (LNPA), and state / regional LNP SMSs, tentatively designated in paragraph 208 of the R&O as Type 1 costs.**
 - b. The costs for GTE specific, number portability, Service Management System (SMS), Service Control Point (SCP), Signaling Transfer Point (STP), and SS7 link hardware and software, and number portability specific switch processor and memory hardware and software, tentatively designated in paragraph 208 of the R&O as Type 2 costs..**
 - c. SS7 and AIN implementation costs, generic upgrades, operator services originating line number screening (OLNS) requirements and interoffice trunking estimates due to LNP are included. These costs reflect requirements for activity not planned for 1997. Impacts upon the years 1998 - 2001 are under development.**

- d. Costs associated with the development of the LNP Local SMS that is required to interface with the regional LNPA SMSs. Note: These 1997 costs also include start-up costs being expended in 1996.
 - e. A preliminary estimate of the cost to modify the basic telephone number assignment system to support numbers that have been ported out of our switches.
5. The estimates **DO NOT INCLUDE** the following costs which have not yet been quantified with any reasonable certainty:
- a. Costs to provide enhancements and modifications to the Line Information Data Base (LIDB) system to enable operator services to work in a portable number environment.
 - b. Costs associated with modifying existing GTE legacy Operations Support Systems (OSSs). These systems must be modified to correctly order, bill, administer and maintain ported numbers within the network. GTE has completed only preliminary technical analysis of the required changes to these systems due to the lack of industry consensus on process flows and procedures.
 - c. Increased table maintenance costs associated with the administration of increased Global Title Translation (GTT) activity in the STP that is needed to support the CLASS, Calling Name Delivery and Alternate Billing Services.
 - d. Maintenance costs associated with any manual work required to port a customer out of a GTE office.
 - e. Costs driven by any changes to the current proposed specifications and processes.
6. It is assumed that all customer provisioning and maintenance processes will be mechanized to the extent that is economically feasible, and while most of the costs for this additional mechanization has not been included, neither has any additional labor cost been included in the event GTE must resort to interim manual processes.

The estimated LNP costs for GTE are summarized in the attached table.



Jennifer S. May
Gregory L. Theus


TABLE 1

LNP REQUIREMENTS BASED UPON FCC 7/2/96 RULEMAKING (\$000)										
	1997	1997	1998	1998	1999	1999	2000-2001	2000-2001	TOTAL	TOTAL
	Capital	Expense	Capital	Expense	Capital	Expense	Capital	Expense	Capital	Expense
NPAC SMS - GTE share		\$11,000		\$10,000		\$10,000		\$10,000	\$0	\$41,000
~ SS7 componets										
STPs	\$1,254	\$708	\$0	\$0	\$1,254	\$708	\$5,016	\$2,832	\$7,524	\$4,248
SCPs	\$26,049	\$17,561	\$13,024	\$8,780	\$8,683	\$5,854	\$17,366	\$11,707	\$65,122	\$43,902
Switch Componets										
Switch Upgrades	\$48,915	\$59,473	\$47,404	\$42,463	\$62,476	\$54,622	\$217,848	\$167,350	\$376,643	\$323,908
Systems										
Local SMS	\$2,179	\$3,167	\$1,776	\$2,700	\$0	\$1,778	\$0	\$3,465	\$3,955	\$11,110
Assignment System		\$60,000								\$60,000
All Other OSSs	TBD	TBD								
Sub Total	\$78,397	\$140,908	\$62,205	\$53,943	\$72,413	\$62,962	\$240,230	\$185,354	\$453,244	\$433,167
Generic Software	\$52,410	\$23,444		TBD		TBD		TBD	\$52,140	\$23,444
Interoffice Trunking										
H/R links	\$7,947	\$0	\$7,333	\$0	\$4,831	\$0	\$28,549	\$0	\$48,660	\$0
ALEC Trunking	\$20,441		\$15,297		\$13,193		\$24,749		\$73,680	\$0
Sub Total	\$80,798	\$23,444	\$22,630	\$0	\$18,024	\$0	\$53,298	\$0	\$174,750	\$23,444
Annual Cost	\$159,195	\$175,352	\$84,835	\$63,943	\$90,437	\$72,962	\$293,528	\$195,354	\$627,994	\$507,611

* Total Capital and Expense currently estimated for the five years = \$1,135,605

Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "Comments of GTE" have been mailed by first class United States mail, postage prepaid, on the 16th day of August, 1996 to all parties of record.


Judy R. Quinlan